

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10

L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 SAM-01 AID-20 CEA-02 COME-00 EB-11 FRB-02

IO-14 NEA-11 OPIC-12 TRSE-00 CIEP-02 LAB-06 SIL-01

OMB-01 AGR-20 SCI-06 FEA-02 DRC-01 /226 W

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R 011946Z FEB 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC 0140

INFO AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY LONDON

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMEMBASSY STOCKHOLM

AMEMBASSY ROME

AMEMBASSY BERN

AMEMBASSY LUXEMBOURG

AMEMBASSY COPENHAGEN

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DEPARTMENT PASS TREASURY AND CEA

1. SUMMARY. THE ECONOMICS MINISTRY HAS LEAKED TO THE PRESS THE FIGURES FOR ITS TARGET FORECAST FOR 1974. THE MOST SIGNIFICANT ASPECT OF THE FIGURES WHICH HAVE APPEARED IS THE WARNING THAT IF WAGES INCREASE BY MORE THAN 10 PERCENT UNEMPLOYMENT CAN BE LIMITED OFFICIAL USE

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EXPECTED TO REACH 2.5 TO 3 PERCENT, AND CONSUMER

PRICES WOULD RISE BY AT LEAST 10 PERCENT. THE EFFECTS OF THE OIL CRISIS WERE NOT SINGLED OUT IN THESE NEWS LEAKS, REFLECTING CURRENT OPINION IN THE MINISTRY THAT THE PROBLEM FACING THE ECONOMY IS A DECELERATION IN THE GROWTH OF DEMAND, NOT INSUFFICIENT SUPPLY. END SUMMARY.

2. ALTHOUGH THE GOVERNMENT'S ANNUAL ECONOMIC REPORT (AER) HAS NOT YET BEEN APPROVED BY THE CABINET (APPROVAL WILL PROBABLY COME NEXT WEDNESDAY), THE ECONOMICS MINISTRY HAS ALLOWED THE TARGET FORECAST FOR 1974 TO LEAK OUT TO THE PRESS. IF THE CONCLUSIONS OF THE MINISTRY ARE UPHELD BY THE CABINET IT WILL BE THE FIRST TIME SINCE 1967 THAT THE AER HAS WARNED OF THE DANGER OF UNEMPLOYMENT. THE FIGURES IN THE TABLE BELOW HAVE BEEN CONFIRMED BY ECONOMICS MINISTRY SOURCES.

GNP COMPONENTS

TARGET FORECAST FOR 1974

(RATE OF GROWTH IN PERCENT OVER 1973)

REAL GNP	0 - 2
NOMINAL GNP	6.5 - 8.5
PRIVATE CONSUMPTION	8.5 - 9.5
PUBLIC CONSUMPTION	14 - 15
INVESTMENT	4 - 6
PUBLIC INVESTMENT	9 - 11
CONSUMER PRICES	8.0 - 9.0
PRICE OF GNP (GNP DEFLATOR)	6.5 - 7
(PERCENT OF WORK-FORCE UNEMPLOYED)	(2.0)

3. THE MINISTRY HAS ALSO LEAKED THE RESULTS OF AN IN-HOUSE FORECAST WHICH WILL NOT REPEAT NOT APPEAR IN THE AER. THE MINISTRY PREDICTS THAT CONSUMER PRICES WILL RISE BY NO LESS THAN 10 PERCENT IF THE RATE OF INCREASE OF WAGES REACHES 10 PERCENT. IN

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THAT EVENT THE UNEMPLOYMENT RATE WOULD GO UP TO
2.5 OR 3 PERCENT. THE GROWTH RATE OF REAL GNP WOULD
BE UNCHANGED (O - 2 PERCENT), BUT THE GNP DEFLATOR
WOULD EXCEED 7 PERCENT. THE FORECAST WAS NO DOUBT
LEAKED IN AN EFFORT TO HAVE SOME EFFECT ON CURRENT
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WAGE NEGOTIATIONS.

4. ECONOMICS MINISTRY OFFICIALS ARE MORE AND MORE
OF THE OPINION THAT DEMAND, NOT SUPPLY (READ OIL)
WILL BE THE KEY RESTRAINING FACTOR ON THE ECONOMY IN
1974. THUS, THE OIL CRISIS DOES NOT PLAY A MAJOR
ROLE IN EITHER FORECAST. INCREASED OIL PRICES, AS
REPORTED EARLIER, ARE EXPECTED TO FORCE CONSUMER PRICES
UP AT A RATE OF 2.5 PERCENTAGE POINTS HIGHER THAN
WOULD OCCUR IF ONLY "NORMAL" INCREASES WERE FELT FOR
CRUDE. (THIS ASSUMES THE INCREASES ALREADY ANNOUNCED

WILL NOT BE ROLLED BACK.) ALTHOUGH THE MINISTRY IS
AWARE THAT STRUCTURAL ADJUSTMENTS WILL BE NECESSARY IN
THE FACE OF RAPIDLY RISING OIL PRICES, THEY ARE
ANTICIPATING NO SERIOUS IMPACT ON ECONOMIC GROWTH.

5. BOTH PRIVATE AND GOVERNMENT FORECASTERS ARE AGREED
THAT THE KEY FACTOR IN ANY CURRENT FORECAST IS HOW
FAST WAGES ARE TO RISE. BECAUSE THE RANGE OF WAGES
DEMANDED AND OFFERED IS SO GREAT (CURRENTLY 9.5
VS. 15 PERCENT) THAT TAKING A MID-RANGE ESTIMATE WOULD
BE AS BAD AS ANY OTHER GUESS. FOR THIS REASON, NO NEW
PRIVATE FORECASTS HAVE APPEARED SINCE BONN'S 1063
NOR ARE OUR CONTACTS WILLING TO MAKE PRIVATE FORECASTS
UNTIL THEY HAVE SOME INKLING OF THE COURSE WAGES
WILL FOLLOW.
HILLENBRAND

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